# DRAFT FISCAL NOTE

REQUEST NO.

| RESPONDING AGENCY: | CODE: | DATE: | BILL NUMBER: |
|---|---|---|---|
| **Office of the State Actuary** | **035** | **12/1/06** | **EMT Service Credit Transfer** |

**SUMMARY OF BILL:**

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) and the Public Employees' Retirement System (PERS) by changing the provisions governing the transfer of PERS service earned as an emergency medical technician (EMT) for a city, town, county or district into LEOFF 2. This bill would require the immediate transfer of PERS EMT service and the associated member contributions into LEOFF 2 if a member who elected to transfer such service dies or retires for disability prior to five years from their date of election. The bill would also allow the member or beneficiary to pay any outstanding member obligation for the transfer of the EMT service:

- In full, or
- By means of an actuarial reduction in the monthly benefit, or
- By continuing to make payments so that the obligation is paid in full by no later than five years from the member's original date of election.

Finally, the bill would extend the expiration date of the act to July 1, 2018. This is a technical correction that has no cost impact and is necessary to ensure that the act does not expire before the end of the period in which employers may be required to pay an employer portion of the service transfer cost.

Assumed Effective Date: 90 days after the end of session

**CURRENT SITUATION:**

Under current law, PERS EMT service will be transferred into LEOFF 2 no sooner than five years following the effective date of the member's election to transfer service, and only after the member has earned five years of service as a fire fighter following the effective date of the transfer and made all the required member payments. The act expires on July 1, 2013.

**MEMBERS IMPACTED:**

Any LEOFF 2 member with prior PERS EMT service that is eligible for transfer and who dies or retires for disability prior to end of the five year waiting period may be impacted. We estimate that there are 80 such members out of 15,168 active members of the LEOFF 2. We expect that about 5 of these members or their beneficiaries would benefit from this bill.

We estimate that for a typical member impacted by this bill, the value of the increase in benefits would be about $60,000. This estimate is based on a member or beneficiary receiving increased annuity benefits due to the transferred EMT service of approximately $2,000 per year an average of 30 months earlier than would otherwise be allowed.

**ASSUMPTIONS:**

- All eligible EMT's have similar average annual benefit amounts being transferred as the King County EMT's.
- On average, an EMT who disables or dies during their window period will collect their benefit for an additional 30 months.
- Up to five members may go out on a disability retirement or die during their waiting period.
- Members or beneficiaries who do not pay the outstanding member obligation for the transfer of service credit in full at the time of transfer or by means of an actuarial reduction to the monthly benefit, will pay the entire obligation within the time frame specified in the bill.

**FISCAL IMPACT:**

None. The liability increase of approximately $0.3 million is insufficient to impact contribution rates.

We further determined that there would be no impact on contribution rates if as few as three or as many as ten members died or retired from disability during their waiting period.

In determining the liability increase for members impacted by this bill, we considered, but did not value any reduction in the retirement benefit that results from an early retirement reduction factor, nor did we discount earlier benefit payments with interest.

The effective date of this bill was not provided in the draft bill language. We have assumed the bill is effective 90 days after the end of session.

## STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

4. This draft fiscal note is intended for use only during the 2007 Legislative Session.

5. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

6. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

## GLOSSARY OF ACTUARIAL TERMS:

**Actuarial accrued liability:** Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

**Actuarial Present Value:** The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

**Aggregate Funding Method:** The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

**Entry Age Normal Cost Method (EANC):** The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry,  and is designed to be a level percentage of pay throughout a member's career.

**Normal Cost:** Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

**Pension Benefit Obligation (PBO):** The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

**Projected Benefits:** Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

**Unfunded Liability (Unfunded PBO):** The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

**Unfunded Actuarial Accrued Liability (UAAL):** The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.